

DYNAMIC OUTSOURCING SCORECARD

Getronics

a KPN company



SUMMARY

WHEN OUTSOURCING YOUR ICT, SERVICES ARE DESIGNED BASED ON THE NEEDS OF THE CUSTOMER AND THE ABILITIES OF THE SUPPLIERS. HOWEVER, AFTER A SMALL PERIOD OF TIME, MANY CUSTOMERS AND SUPPLIERS BECOME DISSATISFIED, ALTHOUGH THE SERVICE LEVELS AGREED UPON AND OTHER QUALITY PARAMETERS ARE STILL MET ACCORDING TO PLAN. WHEN WE LOOK AT THE TRADITIONAL APPROACH OF OUTSOURCING, WE CONSIDER THE FOLLOWING THREE FACTORS CONTRIBUTING TO THIS SITUATION:

- First of all: When drafting the request for proposal, customer needs are often determined from a singular perspective. Potential suppliers have little to no room in that phase to create a situation in which both parties can equally discuss their strategy, implementation approach and really bring balance in the realization of the agreement.
- Secondly, when everyone involved only discusses ICT related KPI's they forget to focus on the business value that IT delivers to the organization. A clear difference in perception exists between ICT as a cost driver or a value for business.
- The final factor that causes dissatisfaction is the view that service level agreements and contracts are still considered to be static documents. In a five year contract period, most KPI's and service levels remain unchanged. During this time, every organization goes through changes due to changing strategy, because of the economic climate or business opportunities. Strangely these dynamics are not taken into account whilst setting up present-day outsourcing contracts.

This new way of working also requires a fundamental change within the existing agreements for ICT outsourcing. It requires an agreement in which dynamics and variables are the norm. The service level, in this new form, will not primarily focus on sustaining or guaranteeing a service, but instead will continually strive for a balance between the business and ICT in a changing environment. In this new form, we will also rename the classic Service Level Agreement into a service performance agreement (SPA).

With the help of this method, we will reshape ICT outsourcing in such a manner that it allows us to better align business objectives with ICT facilities. Taking business IT alignment to a higher level of maturity is the main challenge for all parties within the ICT branch. We believe that the outsourcing scorecard is a good method to achieve this.

As an answer to these problems, we introduce the dynamic outsourcing scorecard. This method, based on the balanced scorecard, offers a new way of drawing up and managing durable contracts and service level agreements. The scorecard consists of four quadrants; to each of these quadrants we add objectives, their KPI's, values and the relation to other indicators on the scorecard. By relating the most important anchor points for a successful outsourcing with each other, a balanced framework is created, that allows organizations to work together in a changing business environment.

DYNAMIC OUTSOURCING SCORECARD

DO YOU, AS AN INTERMEDIARY OR CONSULTANT, ADVISE MANAGEMENT ON INNOVATIONS WITHIN ICT OUTSOURCING? ARE YOU RESPONSIBLE FOR MANAGING OR COORDINATING OUTSOURCING DEALS OR ARE YOU ABOUT TO RENEW YOUR OUTSOURCING CONTRACT? THEN THIS VISIONPAPER IS FOR YOU! THE ICT-BRANCH IS ON THE VERGE OF A NEW REVOLUTION IN THE WAY ACCOUNTABILITY DURING SOURCING IS COMPOSED. WHAT THIS MEANS AND HOW THIS COULD BENEFIT YOUR ORGANIZATION IS DESCRIBED IN THIS VISIONPAPER.

DISSAPOINTED CUSTOMERS, DESPITE OF A GOOD AGREEMENT

After the decision to outsource ICT facilities, an intensive process is often initiated. Consultancy firms are hired to assist the organization in their quest to find a suitable supplier who best fits the needs of the customer. During this process 'best practice' models and benchmarks are used to determine the required services and the appropriate quality assurance. A functional architecture is constructed to describe and define the new services and a formal contract is drafted to agree upon these services between customer and supplier. Finally the services are implemented according to plan. The result is a successfully operating ICT environment. Correct?

Not quite. Despite the fact that ICT services and service levels are setup to the needs of the organization; both customer and supplier tend to become disappointed after a while. During a contract evaluation end-users express discontentment, the financial objectives are not met and a set of escalations has influenced the relationship in such a way that we can no longer speak of a successful outsourcing partnership. To correct these problems, supplier and customer initiate corrective actions in an attempt to still to make this joint outsourcing adventure a great success. Because, despite all the disappointments, all carefully selected service levels were fully met, the whole time.

Please continue to read if this sounds familiar to you. This vision paper introduces an idea that is both simple and refreshing: dynamic service levels and corresponding key performance indicators.

CURRENTLY, SERVICE LEVELS ARE STATIC

One of the most important critical success factors of a sourcing program is to create harmony between ICT and business decision-makers within the organization, also known as business IT alignment. It is because of this, that during the definition of the RfP, much attention is spent on:

- Translating the organizations' ICT related needs to ICT services
- Defining the right accountability and KPI's to assure the quality of a new ICT service

During this stage, blueprints for the contracts are created which are to form the framework for further collaboration with a new sourcing partner. More often than not, the future ICT-partner is not yet involved during this phase. This need not be a problem, if the blueprints would provide sufficient room to fill in those collaboration aspects at a later stage. But in reality we often see that requests for proposal (RfP) are mostly limiting these possibilities by not only defining the accountability and KPI's on forehand, but also by already quantifying them. Although this makes it easier to compare the different suppliers with each other, it creates serious limitations for a successful relationship.

Let us list some of the most common KPI's used today in traditional contracts:

- Service window, stated in hours per day and days per year
- Availability of a service, in a certain percentage
- Resolution times of incidents and questions, in hours including a success rate stated as a percentage
- Completion times of standard changes, also in hours or days, including a success rate stated as a percentage
- Customer satisfaction, rated on a 1 to 10 scale
- (Annual) cost reduction, for instance by means of a percentage of the seat price

Of course we can mention more indicators, but most organizations will recognize the ones mentioned above.

The maturity levels in the ICT branch have grown during the last few years. Five years ago we still saw generic service level agreements containing basic ITIL process level indicators. Today, the ICT branch has undergone a metamorphosis and

ICT IS NO 'UTILITY'

Until now we stated that current service levels are static in nature. The problem this brings becomes even more apparent when ICT is expected to be delivered as a utility.

During the last few years the notion arose, that ICT should be something that is 'just there'. It always works and should be considered a Utility. Even as early as 2003 Leo Ruijs and Wouter de Jong introduced the concepts of 'service pit' and 'service shell'. This is a way of distinguishing services into the functionality as it is offered to and perceived by the user and the aspects that are needed to guarantee that service such as the availability thereof and the way in which malfunctioning should be treated. ITIL3 introduced the concepts 'utility' and 'warranty' which, in a slightly different format, created a similar breakdown between a service as a function and its' assurance thereof. Today ICT services are part of the business processes of an organization. Impact of an ICT service that is not working properly is immediately noticed within the business.

So, when ICT services are regarded as more and more as a utility, comparable to, say electricity, the same perception that users have of such a utility service applies. In other words, ICT services always work and users take this for granted. Because of precisely this perception, the collaboration between ICT supplier and customer becomes more difficult and will degrade as time goes by. Let us use the next example to clarify this:

IS ICT LIKE ELECTRICITY'?

Electricity is a given. It always works. Malfunctions to this type of utility are considered to be a real bother and imme-

diately leads to loss in productivity. Companies are halted and goods perish. In fact, supplying electricity does not automatically lead to a satisfied customer. Not supplying it will however certainly lead to very dissatisfied customers.

The ITIL3 concepts: utility and warranty are based on similar principles: The fact is, that we often only realize how dependent we are of a system or service if 'it's not there' or 'not working'. Of course these 'best practices', such as ITIL, are a good basis for setting up ICT services. As long as you realize that they originate from an ICT paradigm that is fairly static and does not necessarily align with ICT needs within a dynamic business environment.

The delivery of utilities like electricity and water happens through an industry which has fully matured and has been around for a long time. These markets, and their products, are relatively static. Product development for the utility market is mostly based on price and new variable delivery and invoicing concepts, while ICT services and outsourcing have to deal with a much higher level of dynamics and complexity. The delivered services primarily need to align with the business processes of the customer, even while these processes are also constantly changing. Understanding this means that 'utility' and 'warranty' are about guaranteeing the functionality of a service and not about dynamically interacting with the demand organization.

If we really want to take a fluctuating business environment and its changing needs into account, in such a way that service continues to align with customer needs, we need something different than what is currently considered to be the best practice.

more and more we are talking about critical ICT processes to the business.

What has not changed, in all that time, is the fact that KPI's are still being quantified within service level agreements (SLA's). One of the current characteristics of such a document is often its' static nature. Both customers and suppliers want to touch it as little as possible during the duration of the agreement. This static reality then becomes the frame of reference during that partnership. The big question here is whether this situation, although seemingly safe, is actually withholding the partnership to fully blossom or not? Because for certain, the current 'standard' service levels do not take the following changes into account:

- Changes in the economic climate
- Dynamics of the market in which the customer operates
- Dynamics of the market in which the supplier operates
- Technological developments that influence demand
- Consumer behaviour and its' influence on the users
- The financial situation of both parties
- Was based (both customer and supplier)

The dynamics that companies find themselves in on a daily basis is not part of the standard service level agreement for the industry. In fact, we define the route and the maximum speed to which all parties must comply for a period up to five years.

TURBULENCE REQUIRES FLEXIBILITY

The economy fluctuates, markets shrink and grow. All products and services are subject to a lifecycle and the strategies of organizations evolve. One thing is certain: If there is something that organizations need to survive during turbulent times, it is flexibility and the willingness to change. The law of evolution teaches us that organisms that do not adapt die out and organizations that do not anticipate to Change will not last. Think about the words 'organization' and 'organism' as mentioned in the previous sentence. It is not a coincidence that both words originate from the same Greek word 'organon', meaning 'tool' or 'instrument'. With the word 'organization', within this context, we do not mean a legal entity, a meaning which is often attributed to it. No, we mean the organizational entity, possibly consisting out of multiple legal entities that work to produce a product or service in a specific market. This last point is essential: In the case of ICT outsourcing, a set of activities is extracted from one legal entity and transferred to another. Yet, they must form a single supply chain, one organization, to guarantee the continuity of the business services.

That is why an organization, existing of multiple legal entities, is only successful when it allows flexibility to be part of their way of working. This is a form of collaboration which:

- Uses the dynamics of today to determine how successful we are in reacting to change or even anticipate to it
- Takes relationships between KPI's into account, including the strengthening or weakening effect they may have on each other
- Determines the relevance of the defined KPI's and weighs it against de objectives we have determined for a certain period
- Makes sure that accountability, both financially and qualitatively, are economically viable for all involved parties
- Places trust and added value above distrust and penalty clauses
- Is based on the principles of common and mutual interests

STUDIES

Organizations that find themselves in financial distress, often request their ICT supplier to lower the price of previously agreed contracts. The suppliers, who wish to preserve the relationship with their customers, try to find measures for cost-reduction. The seat price often goes down and in response the supplier requires a verification of the amount of seats he services in the configuration database. Also new policies for approving time and material activities and invoices are put in place.

It is odd that during this renegotiation phase, often no one talks about the needs of the business. Only financial goals are discussed and the impact they have on the supplier and the contract. But why is there financial distress in the first place?

Is it one division or location? What strategic measures have been taken? The final question should be: 'And how can ICT support and adapt to this new situation?'

The need for dynamics also becomes apparent for those service levels where a periodic update has been agreed upon. Often a meeting is held, where the agreed performance indicators should be benchmarked against the current situation. However, this highly strategic meeting is mostly used to express discontent with the current level of services. The initial purpose of this meeting is therefore lost, the importance is underestimated and the means to create and maintain a thorough governance structure are not there. Often, many participants in these meetings are insufficiently aware of the quality indicators that should be discussed.

When we look at the consumer market, we have seen the ability of suppliers to adapt to their customers' demand for many years now. Think about flexible mortgages: This product includes all sorts of dynamic measures that are required to adapt to most of their clients' changing situations. The customer is well aware of these characteristics and there is a need for these services. This way he is able to adjust his financial situation to unpredictable future events.

Service providers of Mobile Telephony services also adjust to the needs of their customers. Their strategy creates a unique way of customer intimacy. By understanding that the competition in their market segment is very large, they focus on retaining a customer as well as recruiting new ones. Proactively analysing the call behaviour of their customers, gives the telecom company the ability to offer cheaper subscriptions even before the customers thinks about switching to another provider. This is an example of the ideal form of managing customer behaviour: Before the necessity for flexibility becomes an issue, the supplier has already foreseen the need and presented the solution.

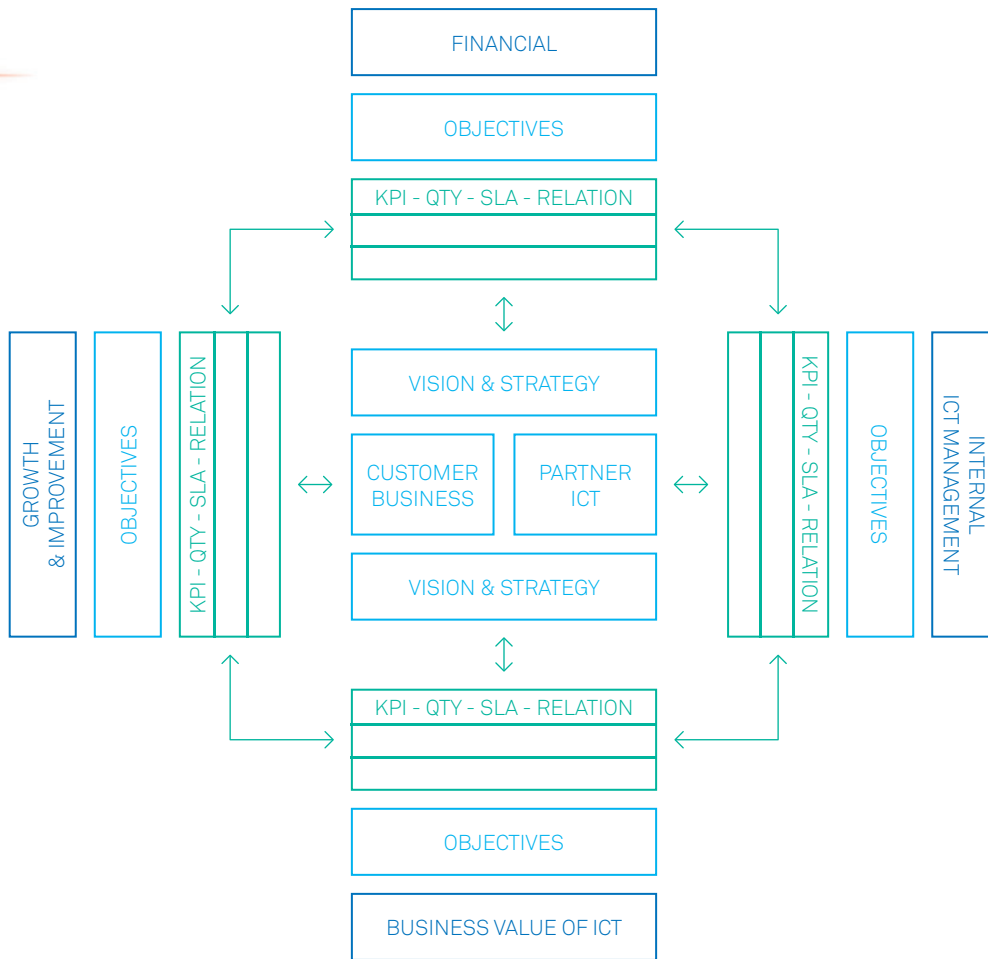
DYNAMIC IN THE AGREEMENTS:

DYNAMIC OUTSOURCING SCORECARD

We have presented many arguments and examples that justify the use of dynamic components and accountability mechanisms in service agreements. But how are we going to implement this? This chapter will outline the idea of dynamic service levels and will explain how to apply these, with the introduction of the dynamic outsourcing scorecard.

As a basis for the methodology, we chose the balanced scorecard¹. This scorecard is a method that relates four perspectives to each other and creates insight in their interdependencies. It is not the only method that translates business objectives into dynamic service levels, but the balanced scorecard does create relations between different elements and perspectives. This feature gives us the chance to really explain what relations

¹ The Balanced Scorecard-Measures that drive performance, Norton & Kaplan, Harvard Business Review, 1992



exist between objectives and their KPI's and how they strengthen or weaken each other. It gives us the correct basis from which we can subsequently derive and determine the right direction or strategy.

The dynamic outsourcing scorecard defines four quadrants, which slightly deviate from the original balanced scorecard to better suit its use. These are:

- The Financial perspective
- Business value of ICT
- Growth & improvement
- Internal ICT management

The main principle of the scorecard is that a change in one quadrant, always affects one or more of the other quadrants. For instance: growth & improvement always leads to changes in the internal design of ICT and/or the finances, like Total Cost of ownership. It is also important to know that the content of the quadrants are derived from the vision and strategy of the organizations involved in the outsourcing.

Vision & strategy

All good intentions put aside; a successful collaboration can only exist with the right vision and strategy. In the case of

outsourcing this means the vision and strategy of at least two parties. When both parties have conflicting interests or objectives, they are by definition not fit to collaborate. A customer, who wants to do business with a local partner, does not find a match with a supplier that is about to offshore much of its services.

To create a good match, you both need to exchange your visions and strategies. Only then are you able to determine which partner is best suited for you. From that point onward, you and your new business partner can fill in the strategy for ICT outsourcing and choose how you wish to implement the quadrants of the dynamic outsourcing scorecard. The most important aspect is to periodically calibrate this vision and strategy. This might well result in changes to the objectives, KPI's and service levels.

The quadrants

For each of the quadrants, based on the chosen vision and strategy, objectives should be determined. With the control elements you can then start differentiating even further and determine the right parameters for the agreement. There are four control elements:

- **KPI**

which key performance indicators will measure whether the chosen objectives are met?

- **Quantity (value of the KPI)**

decide what value each indicator needs to have to achieve the objective. This value represents the quantitative objective that customer and supplier agree upon for a longer period of time. For example: A market share of 25% can be the objective, but it will most likely not be realized within a year.

- **Service level**

to make the distinction between long and short term, quantitative objectives (parameters) and service levels are agreed upon. Depending on the timeline and external factors, it is possible to grant different values to service levels than to KPI parameters. If we acknowledge that achieving a market share of 25% within a year is not realistic, we can agree on a gradual increase of 5% each year. This 5% value then becomes the service level for the coming year.

- **Relation to other KPI's**

identify which connections exist between the KPI's in the model and whether they influence one another in a positive or negative manner.

This final control element is the most important parameter in the model. Changes in vision or strategy can lead to alterations in the objectives and/or service levels/KPIs. These changes must be redesigned from the right context because corresponding service levels can influence one another in a positive or negative way. A very striking example is the fact the customer satisfaction rating will most certainly be impacted when the total cost of ownership (TCO) needs to be reduced by 25%. By aligning the relations between the four quadrants and the usage of an iterative process that repeats itself, say on a yearly basis, we create a dynamic form of collaboration and interaction. This type of agreement offers a lot more room for change, for all parties involved.

Before we continue with an example on how to fill-in the four quadrants of the dynamic outsourcing scorecard, it is very useful to outline what we mean by each of these four perspectives. They differ slightly from the generally accepted perspectives of the balanced scorecard.

Financial

We define the objectives in the financial quadrant to be financial in nature. They are often a result of objectives from the other quadrants and could relate to cost reductions (TCO), sales growth or other financial objectives.

Business value of ICT

The drive for successful outsourcing can be found in this quadrant. By defining objectives with which the added value of ICT to the business becomes visible, ICT service provisioning ascends to a whole new level of maturity. A good example of a 'business value of ICT' objective² is the increase of market share by implementing a new e-business formula. Further on in this vision paper we have worked this out in an example.

Growth & improvement

Changing environmental factors, the vision and strategy, and other quadrants are driving this quadrant. By carefully forming objectives that deal with change and growth, it will be easier to manage the change process (change management or projects). Choosing the right priorities and making a clear distinction between primary and secondary objectives will become much easier.

Internal ICT management

By looking at traditional managed service levels (utility, warranty, availability, service window, etcetera), we are able to define the 'Internal ICT management' quadrant. Even here it is wise to distinguish between primary and secondary objectives. Solving an incident is important, but it is still a derivative of the agreed availability of a service. So there is a clear distinction between a KPI and its underlying performance indicators (PI).

Dare to separate the performance of KPI and PI

To keep the model maintainable and understandable, it is recommended that no more than four or five objectives are applied to each quadrant. This creates the necessity to separate primary and secondary goals. Because most organizations need more than the usual set of twenty indicators to successfully manage processes and services. Therefore a correct translation of the KPI set into PI's which can be delegated to managers within the management process³ is needed. For example: It can be determined that the service desk has to solve a specific incident on a business application within four hours, but this indicator needs to be derived from the 99.9% availability (KPI) that was initially determined as a requirement for that business application.

The audacity to include these relations and to delegate them to the service supplier is crucial. The same applies to the trust both parties need to have in one another to make this into a success. PI's are, from this perspective, no longer a service level but an indicator derived from the service level we have defined using the dynamic outsourcing scorecard.

2 In ITSMF Best Practice Magazine no. 2 - May 2010, we published an article named 'Business value based outsourcing in 2020'. In this article we outline the basis of these ideas.

3 In alignment with – 'Putting the Balanced Scorecard to Work', Norton & Kaplan, Harvard Business Review, 1993

A KPI that is linked to business performance provides a clear basis for the alignment of all ICT activities with the business goals. This may well result in a redefinition of service levels and this is exactly what business IT alignment is trying to achieve. The next chapter specifically focuses on how these KPI's can be formulated and quantified

APPLYING KPI'S IN A DYNAMIC OUTSOURCING SCORECARD

Traditionally, not all parameters are suitable to be managed in a dynamic fashion. In some situations service levels, especially associated with the technical infrastructure, are specifically agreed upon, to guarantee a certain percentage of availability for system architectures. These service levels are relatively static and not suitable per se for a periodic review because they were taken as a baseline for the technical architecture, which stands for a certain amount of years. However, because of the increasing use of SaaS and Cloud Computing environments these parameters, although technical in nature, will also become more dynamic in time.

Internal ICT KPI's versus financial KPI's

KPI's from the quadrant 'Internal ICT management' and 'Financial' are easily recognized as traditional indicators. Examples of these more traditional indicators are:

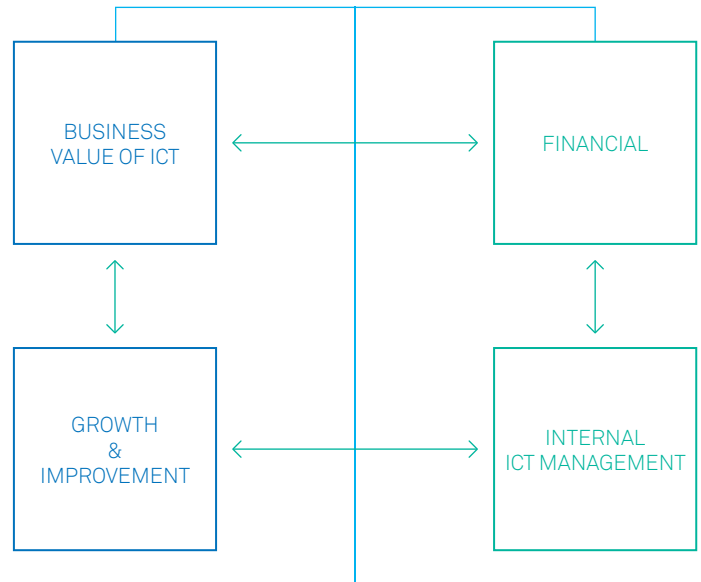
- First response time for user support (especially with regard to service requests)
- Usage of self service portals, etc. (clearly a variable measured in time)
- Problem management - how fast do we solve structural problems and at what cost. Or do we agree with a temporarily cheaper solution?
- Performance management - Temporarily agree with a lower performance
- Availability of critical applications

Dynamic management with ICT indicators from the 'Internal ICT management' quadrant has a direct price versus performance relationship. Exclusively managing on costs and ICT management perspectives is therefore not something to be preferred. To create an even larger dynamic footprint, a distinct relation has to be laid between these 'traditional parameters' and the parameters of 'growth & improvement' and 'business value of ICT'.

Managing financial and operational KPI's in a dynamic fashion can be useful on short-term if an organization wants cut quickly on costs. The downside is that this will not be beneficial to user satisfaction on the long-term. In addition, we lose sight of the business when we only manage on costs and ICT management. These traditional KPI's simply do not have a direct relation with the business objectives of the organization.

Dynamically managing the four quadrants with balance

To ensure the business interests, the other two quadrants of the dynamic outsourcing scorecard: 'Business value of ICT' and 'Growth & improvement' are essential. These quadrants also offer a lot more possibilities in terms of dynamics. The parameters to which we can apply dynamic control are those parameters that manage quality of service and cost.



The tension that exists between the quadrants, the relationship between them and the need for one or the other, may vary during the course of the contract. Here lies the biggest strength of the concept: dynamic service levels. Think about the following aspects:

- **Process maturity**
please; do not define a level of process maturity as an objective. Instead, choose a KPI that continually stimulates growth & improvement, despite the level of maturity
- **Total cost of ownership**
Depending on the annual financial targets for the organization, it is possible that the need arises to cut costs. This will have a direct relation to all qualitative parameters, such as customer satisfaction. If an organization considers ending all mobile data services for their employees (no more mobile phones) from a cost saving perspective, then the users of this organization will most likely express a lower satisfaction because their ICT possibilities are being limited.
- **ICT staff satisfaction**
Reorganization often leads to a lower level of staff even though the financial return justifies the action.
- **Customer satisfaction**
Besides the TCO example we have shown, there are other aspects that can influence customer satisfaction: When an organization allocates finances to increase its understanding of the business value of ICT and also uses it to introduce improvements, then customer satisfaction would be a good measurement to use.

These are all parameters that say something about the quality of service, processes and the perception of the partnership, the more 'softer' elements of management, so to speak. These parameters also give information about the 'business value of ICT' to the organizations business objectives.

In particular, 'business value of ICT' and 'growth & improvement', cannot just focus on ICT as a supportive resource to the business processes, while translating the vision and strategy to the four quadrants. Other elements from the business are also influenced by ICT. Think about strategy, culture (the New Way of Working), employee competence and maybe even the organizational structure.

In the paragraph below, a number of KPI's for each of the quadrants is stated as an example.

FINANCIAL; THE FINANCIAL VALUE OF OUR ICT INVESTMENT

- Total cost of ownership
- Contract value
- Cost reduction
- Variable versus Fixed ICT spending
- Investment budget

BUSINESS VALUE OF ICT; THE WAY IN WHICH ICT SUPPORTS THE OBJECTIVES OF THE ORGANISATION

- Customer satisfaction
- Speed and reliability of delivery
- Degree in which the business strategy is realized by, ICT services
- Total value of ownership
- CO² neutrality (carbon footprint reduction)
- Additional business turnover through the use of ICT (for example: utilizing e-commerce)

GROWTH & IMPROVEMENT: THE WAY IN WHICH ICT BRINGS LONG-TERM INNOVATIVE OPPORTUNITIES

- Number of new ICT services
- Strategic advice provided
- Reduction of time to market for new products or services

INTERNAL ICT MANAGEMENT: THE WAY HOW ICT SERVICES ARE MANAGED

- Availability of a service
- Number of process improvements realized
- Amount of initiated service improvement plans
- Process maturity

DYNAMIC OUTSOURCING SCORECARD IN PRACTICE

To illustrate the use of the scorecard in practice, we have developed a fictional case of a large restaurant chain. In this case we introduce a new business opportunity and clarify the consequences thereof to the existing outsourcing business case. As a means, we will use the dynamic outsourcing scorecard. In this case we have only populated the scorecard with the business opportunity above and not any other components.

General characteristics of the existing agreement

Our restaurant chain has eight hundred workspaces, cash registers, an ERP system and general office automation outsourced to an ICT service provider. The agreement has been made two years ago, and the main elements are as follows:

- Availability of office automation, cash registers, including e-mail and data storage is set at 99,5%
- Availability of the ERP systems is set at 99,8%, measured on a yearly basis.
- Customer satisfaction (as perceived by the end users within this restaurant chain) is 7.5 on a 1 to 10 scale
- The customers are serviced from a service desk with a service window from 10 o'clock in the morning until midnight.
- AI services are designed in such a way that break-fix services (and subsequent service levels) are aligned with the availability service level.
- The contract value is based on a fixed seat price for each workspace or cash register. This also includes standard changes within the office automation environment.
- The ICT budget for the restaurant chain is equal to the total contract value with an additional 200.000 euro for variable costs.

A business opportunity

The restaurant chain sees an opportunity to expand their services and turnover by utilizing new technologies and media in an innovative way. This vision means a drastic change in the way of working. In the past, each of the restaurants had much autonomy in both system use and their way of working. This new market approach requires all branches to use real-time information and the companies' management realizes that they lack the skills to implement this. They therefore call upon their ICT service provider for help.

Together they decide on how this new opportunity will be realized and what the impact will be on the current service agreement. The dynamic outsourcing scorecard is used as a method for impact analyses.

Vision/mission of the business

• Old

Dining in one of our restaurant stands for quality and exceptional service. We offer our guests an atmosphere that allows them to relax and enjoy our quality dishes.

• New

Dining in one of our restaurants is an experience that starts from the moment of your reservation. We stand for quality and exceptional service and offer our guests an atmosphere that allows them to relax and enjoy our quality dishes. All our services are real-time, connected and integrated so our guests can choose what is currently suitable to their specific needs. In this way we are able to facilitate the hectic lifestyle of our guests and they consider our service to be easy, accurate, and with the highest level of quality.

Objective

To successfully integrate online services in such a way, that our guests are able to access real-time information about their reservation (by phone, computer or other digital device). They are able to place an order or reservation, online payment is a standard commodity and the customers can also share their experiences online. In the future these services will be expanded with other online information and reservation services.

Rationale

Many of our guests come to our restaurants based on a spontaneous decision. We will be able to influence these decisions better using these high-quality online services. This will lead to more guests who will also return more often.

SCOREBOARD

FINANCIAL			
<ul style="list-style-type: none"> Sales growth by attracting new potential guests Investments should justify the expected revenues (business case approach) 			
KPI	Proven sales growth in 2012 through online services	Service level	15% of all sales for the coming year (2011) will be achieved through the new reservation service
Qty	30%		
KPI	TCO	Service level	The fixed cost of the contract will increase by xxx euro
Qty	will increase by up to 20%		
The variable administration costs for this system shall not exceed 100,000 euro's			
Relationship with availability of the service and customer satisfaction. These strengthen or weaken each other.			

BUSINESS VALUE OF ICT			
<ul style="list-style-type: none"> ICT component are at the heart of this new way of attracting guests, it directly determines the success of this new formula, making it part of the core process of our business. 			
KPI	Satisfaction of our guests on-line services	Service level	A score of 6.5 in the introduction year
Qty	A rating of 7.5 in 2015		
KPI	A growth in our market share	Service level	Market share (in 2011) should be increased from 5.9% to 6.5%
Qty	to 8% in 2015		
Relationship with availability of the services and revenue growth.			

GROWTH & IMPROVEMENT			
<ul style="list-style-type: none"> ICT is continuously changing; this new concept will create expectations from our guests in such a way that innovative collaboration with our ICT partner is necessary. 			
KPI	Time to market of new online services	Service level	In 2011, the implementation of a new online service will take no longer than 5 months
Qty	Development of new concepts and implementation in no more than 3 months		
KPI	Partnership, by proactively suggesting new ideas for existing services	Service level	Every 6 months a workshop is given, in which new technologies are discussed, that potentially fit the strategy of the restaurant
Qty	1 or 2 business cases each year		
Relationship with - increasing sales leads lead to more revenue. The sooner a new service is launched, the sooner it will contribute to revenue growth.			

INTERNAL ICT MANAGEMENT			
<ul style="list-style-type: none"> The availability of online ICT services has a direct impact on our revenues. The cash registers have now become a primary part of the online service and a high availability is required 			
KPI	Availability of online ICT services	Service level	99,8% annually
Qty	99,8% annually		
KPI	Process maturity	Service level	In 2011, a proven process maturity across all processes is measured with an average of 4.
Qty	By realizing level 5 and continuously optimizing business IT alignment through the use of the dynamic outsourcing scorecard		
Relationship - Online service have a direct interface with the ERP system. The interdependence is so explicit that a similar service level for availability has been chosen. Process maturity has a direct relationship with the extent to which the parties can jointly optimize IT supply and market demand. This is difficult without introducing a dynamic accountability mechanism.			

Consequences of the new concept

The consequence of this concept for the restaurant chain is that ICT will play a new role in achieving their business goals. Besides the investments in newer or better ICT components for online services, there are also consequences to ICT as an entity.

- The perception of ICT will change from a cost driven to a value driven one; this also introduces a new budget;
- The innovative abilities of the ICT partner will be one of the selection criteria for online services; a different way of managing ICT partners is the result, from controlling costs to value creation
- The existing outsourcing agreement no longer meets the requirements, it has to be changed

This business opportunity does not mean that the complete outsourcing agreement needs to be revised. This new form will ultimately be a combination of elements from the current environment, that has not changed, and new elements that have been introduced through the business opportunity. (Business Intelligence)

After having read this case, take a moment to think about how this model would be filled in if this restaurant chain had other strategic goals, related to: higher reliability of services, improvement of knowledge sharing or marketing information provisioning.

A NEW KIND OF AGREEMENT

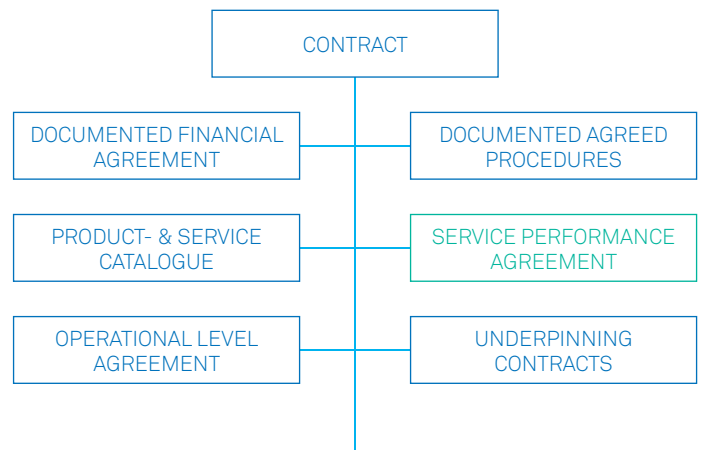
In any outsourcing agreement, various levels of contracts or legal agreements can be distinguished. They can be divided into three categories, namely:

- The actual high level legal agreements - these documents deal with strategic issues, financial arrangements, transfer of personnel, etcetera.
- The agreements where the services are further defined - traditionally we encounter the service level agreement and the product- & services catalogue in this section.
- Any agreements on an operational level, which should be made to ensure correct service provisioning – for example: the documented agreed procedures (DAP).

The newly proposed method in this vision paper requires a new type of outsourcing agreement. This calls for an agreement where dynamics and variables are the norm. This new agreement will be part of the middle level of the contract tree, where the service level agreement (SLA) and product- & service catalogue (PSC) traditionally are located. The other types of contracts, which are part of the total structure, need not be changed.

The SLA, in this new form, will not primarily focus on ensuring the service (in the traditional sense). Unlike the old form, this new one relates services directly to the business objectives

and therefore manages the effect, of the service, on the customer (the business). To emphasize this new role of the SLA, we will rename the SLA into a **Service Performance Agreement (SPA)**. This immediately shows the new focus in the areas of performance.



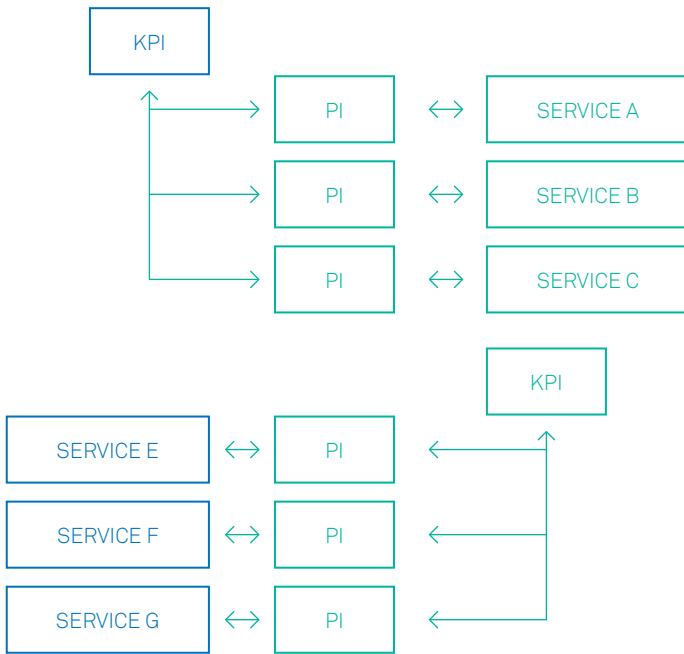
To manage the effect of the service to the business objectives, it is necessary to understand why you choose for a specific service and which parameters best monitor the 'performance' of the service in relationship to the initial objective. Therefore, the SPA starts with a rationalisation of the objectives for outsourcing. These have been identified and prepared according to the four quadrants of the dynamic outsourcing scorecard methodology, including the established KPI's and their quantitative parameter. They will function as a thermometer to the success of the partnership.

The following list gives insight in how to construct such a new agreement:

- Construct a product- & service catalogue, but notice that this PSC mostly describes traditional KPI's, based on the principles of 'utility' and 'warranty'.
- These traditional KPI's are necessary for success, but the difference will be made within the remaining part of the agreement. As said, the 'utility' perspective does not take value creation into account. Thus, we have to let go of some of these 'utility' perceptions if we want to integrate value creation into our partnership.
- The KPI's, and how they are measured quantitatively, are part of the SPA. This is a subset of the traditional service levels, as the delegation of PI's is an essential part of the dynamic outsourcing scorecard mechanism.
- The actual values of the KPI's are variable due to the dynamics of the scorecard and are placed in an annex to the SPA (see below).

This result in a layered KPI model (which is similar to the layered principles model used in the ICT architecture domain) that allows the internal ICT demand organisation to focus on those issues that are of greatest importance to the business and can be properly addressed by its ICT supplier.

Priority is not just determined by using the PI value, but also by direct relationship with the priorities of the KPI's above it.



The product & service catalogue should also be dynamic in nature because its services and their qualitative elements can be added, modified or removed during the course of an agreement. This has in fact always been the goal of a correctly managed catalogue. Unfortunately we often see, the catalogue used as a static document instead of a dynamic one. With the introduction of the dynamic outsourcing scorecard and service performance agreement, a well-managed catalogue, which needs to be dynamic, is still crucial. If this is not done correctly, the catalogue will lose its relevance, in time, when more changes are made.

Maintaining a service performance agreement

The effect of managing with a service performance agreement only becomes noticeably positive, if we periodically test whether the agreed objectives remain the same as the organisational objectives. The best way to secure this is to include a paragraph into the SPA where periodic calibration is described. For example: By defining a proper review schedule and procedure. The principles of the scorecard, as described in this document, will provide an excellent basis for this paragraph.

After periodic calibration of the SPA, the results can be recorded in a new separate annex. Here we can also describe how other changing factors impact the traditionally agreed services and the objectives from the four quadrants. This annex is the actual SLA, but the period in which it is operational, has become dependent on an iterative process. This results in values with a shorter lifespan but with much higher dynamics and relevance to the business.

Performance indicators (not to be confused with KPI's), which can be related to the SPA, are part of the 'Internal ICT management' quadrant. They could for instance be part of an

operational level agreement (OLA). The documented agreed procedures (DAP) can then contain the descriptions on securing and the implementation of these performance indicators

WHAT WILL THE DYNAMIC OUTSOURCING SCORECARD PROVIDE US WITH?

The dynamic outsourcing scorecard provides the correct starting point of what has always been the ultimate goal of service management: the delivery of services to customers, within the current economic situation, of which we all recognize, that it is dynamic and not static.

The best practice models state that agreements as a DAP and a PSC are subject to change and therefore are dynamic in nature. However, the agreements are being held hostage because of the static interpretation of the Service Level Agreement. No one has been able, in recent years, to substantially align IT Service Management with these dynamics. This vision paper proposes to break with that traditional 'hostage' situation. As such, it is not a new theory in addition to best practices, but a means to apply best practices, just like the original entities that shaped them, had in mind.

REDESIGNING ICT OUTSOURCING TOGETHER

The process as we know it today should be revised and therefore the actual service agreement should only be formulated after choosing your ICT partner. Only then can you become successful within such a partnership.

During an RfP process, one primarily needs to focus on what is really necessary for the business of the organization in terms of outsourcing requirements. Do not just fit everything in a fixed set of agreements, service descriptions, service levels and bonus / penalty clauses. This unilateral initiative will ultimately hinder success. Instead, we propose the following:

- Contribute directly to the partnership, based on an equal partnership and by addressing all business perspectives, necessary within the outsourcing agreement
- Define objectives based on the four quadrants, as they exist today.
- Identify the relevant KPI's
- Explicitly focus on the dynamics that will ultimately change the aforementioned objectives and how the organizations involved wish to handle these.

In answering an RFP, potential suppliers must demonstrate to what extent they are able to contribute and how their strategy aligns with that of the customers'. A well thought of governance structure needs to be set up to support these dynamics correctly.

In the next phase, after having made a choice for one or more partners, the KPI's need to be quantified and translated into service levels for a given period of time, according to the

proposal we described earlier in this vision paper. At that moment, the actual service agreement (SPA) is established. So it is the guidelines and objectives at the beginning of the process that will eventually lead to a good agreement. This, in contrast with the fixed pattern and contract set as we often encounter. We want to conclude this vision paper with the following advice:

- Dare to let go of the traditional KPI's and PI's. Leave them in the hands of the internal ICT demand organization. The alignment between the business objectives and the creation of value to the business will provide a more durable result in the long-term.
- Return to the essence of what ICT services should be comprised of. The internal ICT organization and its processes are only a small aspect of what is important.
- Do not limit yourself by only complying with the ICT market trends: Dare to address the important issues that matter to you and your organization.
- Agree to a contract based on a foundation of a trust rather than distrust using the motto "less is more". More service levels mean more bureaucracy and distract us from what really matters.
- Add a dynamic mechanism within the contracts, taking change into account, as well as the way to assess outsourcing success.

A successfully designed dynamic outsourcing scorecard is the best way to bring ICT outsourcing to a higher level of maturity, where our current way of working is clearly obstructing this. It is time for real business IT alignment. It is time for dynamics in collaboration. It is time for the dynamic outsourcing scorecard!

LET'S TALK

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